THE CURRENCY

REPORT BY THE

SPECIAL COMMITTEE

OF THE

CHAMBER OF COMMERCE

OF THE

STATE OF NEW YORK

SUBMITTED TO THE CHAMBER

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JOHN CLAFLIN, Chairman
FRANK A. VANDERLIP, Vice-Chairman
ISIDOR STRAUS
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CHARLES A. CONANT

JOSEPH FRENCH JOHNSON, Secretary

Mr. Morris K. Jesup,

President of the Chamber of Commerce of the State of New York.

Sir:

The Special Currency Committee appointed by you in March, 1906, to inquire into the condition of the currency and to suggest desirable changes, beg to submit the following report.

The Committee held their first meeting on March 14, 1906, and met at frequent intervals from that time up to the date of this report. Suggestions were sought by circular letter from members of the Clearing House Committees of principal cities, consultations were held with leading bankers in the United States and the experience of the heads of the chief European banks of issue was sought by letter and by personal visits of one of the members of the Committee, and is embodied in letters printed as an appendix to this report.

The gold supply of the United States on July 1, 1906, amounted to $1,475,841,821. In addition to this gold, the country contained on that date $1,594,048,919 of other currency, as follows: United States notes $346,681,016, Treasury notes of 1890, $7,386,000, silver dollars (or certificates) $560,864,855, National bank notes $561,112,360, subsidiary silver $117,998,588. The total stock of currency was $3,069,884,640, of which $2,744,483,830 was in circulation, the remainder, $325,400,810, being held in the United States Treasury. The representative money is kept at par with gold either through direct redemption or through limitation of the supply. In view of the measures taken to maintain its equality with gold by the Act of March 14, 1900, we do not think it necessary to recommend any further steps in this direction at the present time.

ONE IMPORTANT DEFECT.

We find, however, that the monetary system is defective in one most important respect, namely, flexibility, and that in consequence the country's business interests are at times seriously hampered. This defect is due to restrictions which are unnecessarily placed by law upon the use of bank credit. Nearly fifty

per cent. of the people of the United States are engaged in agricultural pursuits, and the fruits of their toil are harvested in the autumn. These harvests and the marketing of the crops bring to bear upon the banks a two-fold strain, one for capital, the other for currency. The demand for capital comes from the buyers and shippers of agricultural products and is in the main satisfied by an expansion of bank loans and deposits, most of the payments being made by check and draft. The demand for currency comes principally from the farmers and planters, who must pay their help in cash. In the satisfaction of this demand the banks are unable to make use of their credit, but are obliged to take lawful money from their reserves and send it into the harvest fields. As a result, the money reserves of banks are reduced at the very time when the demand for loans is increasing, and in consequence the rate of interest is advanced.

THE HARVEST DEMAND FOR CURRENCY.

This harvest demand for currency and capital is first felt in July by the reserve cities of the southwest, as the winter wheat of that region ripens. At that time the country banks of Oklahoma and Kansas and the banks of the reserve cities in that region, especially those of Kansas City and St. Louis, are pressed for loans by the buyers of grain, and for currency in small denominations for the payment of harvest hands. Their surplus stock of currency being soon exhausted, these banks draw upon their balances in Chicago, New York, and other eastern cities. Then, as the season progresses and crops in various sections of the country are harvested, a flow of currency from the east to the south, to the west and to the northwest sets in and does not cease until the cotton, corn and wheat of the country are all marketed and the farmers' work for the season is over.

No statistics are available showing the total of this periodical movement of currency. The increase in the demand for loans on account of the crop movement cannot even be conjectured, but the shipments of currency from the banks of the cities into agricultural regions might easily reach $150,000,000. The amount passing through six Chicago banks last year reached $92,000,000. This currency goes in the form of gold certificates,

silver certificates, United States notes and National bank notes. All these except the bank notes, which form only a small proportion of the whole, are "lawful money," and their shipment, therefore, causes a corresponding reduction of bank reserves.

CONTRACTION IN THE FALL.

Since experience has proved that a dollar in a bank reserve is adequate protection for an indebtedness of four dollars due to bank depositors, it is evident that the withdrawal of $100,000,000 from the banking reserves of the country might lead to a contraction of bank loans and deposits by an amount four times that sum, namely, $400,000,000, such contraction being the result of the efforts of banks to increase their reserves by calling loans. Thus at a time when the legitimate demand for loans is increasing in order that the great agricultural yield of this country may be brought to market, the lending power of our banks is actually curtailed by several hundred million dollars. As a result, borrowers of all classes are forced to pay unusually high rates of interest, many business men are unable to secure customary accommodations from banks, and the prices of many articles of commerce suffer, the buying demand having weakened.

INFLATION IN THE SPRING.

Unfortunately these evils are not the only ones that result from the defective character of our monetary system. During the winter and spring there is a return flow of lawful money from the country to the cities, and the surplus reserves of the banks in financial centers are increased as rapidly as they had been diminished in the fall. As the city banks pay interest on this money, they cannot suffer it to lie idle in their vaults; hence the rate of interest is lowered, and speculation is thus unduly encouraged. Bankers are aware that the country will again call for this money in the fall and are careful not to lock it up in long-time paper. Most of it, therefore, is put out on call, and so finds its way into the hands of men whose interests are largely speculative. Here we have the secret of our so-called "spring boom" in speculation. It is the product of inflation, just as our autumnal stringency is

the product of contraction. So long as reserve money to the extent of $150,000,000 is being shipped about the country, now lying for a few months in the vaults of banks, now circulating among the farmers and the planters of the west and the south, these alternate periods of excessive speculation and depression are inevitable.

DUE TO RESTRICTION OF BANK CREDITS.

This condition of affairs is the product of legislation which the country has outgrown. By the National Bank Act our banks, while permitted to utilize their credit in the form of deposit accounts, thus rendering available many hundred millions of capital, are restrained from any natural or free use of that credit as a common medium of exchange.

Between a bank note and a bank check there is no essential difference. The depositor, to be sure, is a voluntary creditor of a bank, and the checks written by him do not circulate widely without endorsement, whereas a bank note is an acceptable substitute for money among people who have little or no knowledge of the issuing bank. Nevertheless both the check and the note are representatives of money and both must be redeemed on presentation. They have, however, different fields of usefulness. The home of the bank check is the town and the city, where people keep their funds in banks. The bank note, on the other hand, properly belongs in the country, among people who have no bank accounts, with whom it is quite as effective as money itself. If our banks were permitted during the crop-moving season to increase their issues of bank notes by from $100,000,000 to $200,000,000, these notes would go into the harvest fields and do the work which now absorbs legal tender money. Since the banks under such circumstances would not be obliged to pay out lawful money from their reserves, they would be under no compulsion to contract their loans as at present.

NATIONAL BANK NOTES NOT AVAILABLE.

Unfortunately, the conditions governing the issue of National bank notes are such as to prevent their being availed of to meet the harvest demand for currency. National bank notes can be issued only by banks which have previously deposited

with the Treasurer of the United States government bonds of a par value equal to the face of the notes to be issued. A bank, therefore, before increasing its circulation is obliged to buy government bonds.

The experience of forty years since the enactment of the National Bank Act has proved that a bank note based upon bonds cannot be relied upon to take care of temporary fluctuations in the country's need for currency. In no single year since the passage of the National Bank Act has the volume of bank notes shown more tendency to increase in the fall than in the spring, nor has their volume ever shown any tendency to decrease when the currency was redundant. Their issue and retirement appear to have been regulated entirely by investment conditions in the bond market absolutely unrelated to the country's need for currency.

BANK NOTES ARE NOT MONEY.

It is proper to call attention to an important distinction between a bank note and other kinds of currency. The silver dollar, the silver certificate, the Treasury note and the United States note are given by law a function which the bank note does not and ought not to possess, for they are rated as lawful money, so that in the reserves of banks they are counted as the equal of gold itself. Any increase in the supply of such money, therefore, would evidently lead to an increase of the lending power of banks, for part of the new currency would certainly find its way into banking reserves. The bank note, however, except in the vaults of state and private banking institutions, cannot be counted as money. Lying in the vaults of a National bank it is like a promissory note still in the hands of the signer—a piece of dormant or slumbering credit, not constituting a liability of the bank, and without influence upon the prices of either commodities or securities. Bank notes are not money and should not be given by law any of the prerogatives of money. They are intended to serve merely as a medium of exchange, and the conditions governing their issue, like those now governing the issue of checks, should be such as to call them into existence only when they are needed and to compel

their retirement or redemption when their work is done.

Since the National bank note is secured by a deposit of government bonds, it seems as good "money" as the greenback. Why, then, it is often asked, should it not be treated as money and counted as such in bank reserves? Experience has proved that such a course would be most dangerous. A bank note, no matter what the collateral behind it, is a bank liability, like a certified check, and may at any time necessitate the payment of actual money. To make it legal tender or lawful money would be equivalent to permitting banks to count in their reserves the sums which are due them from other banks. If such a policy were sanctioned by law, there would be practically no limit to the expansion of bank deposits and loans that would be possible without any increase in reserves of actual money. If Bank *A* were permitted to count the notes of Bank *B* as lawful money, and Bank *B* could do the same with the notes of Bank *A*, the effect would be the same as if banks were suffered to count their own notes in their reserves. This would lead to the conversion of the bonded debt of this country into demand notes like the greenbacks and would not be less dangerous because the conversion would be indirect and disguised, for under such conditions the increase in the volume of bank notes would tend to cause an expulsion of gold, and so endanger the maintenance of the gold standard, quite as effectively as would an increase in the volume of greenbacks.

UNITED STATES BONDS AN IMPORTANT FACTOR.

The present currency problem, in our opinion, might be satisfactorily solved in several different ways, yet there is one important consideration which should not be left out of account. The National banks are owners of United States bonds of a face value of over $600,000,000, and the market valuation of these bonds is largely based on the fact that they are required as security for bank notes. If any other security were substituted, United States bonds would inevitably decline in price. This situation is one of the first and practically one of the important things that must be considered. Those who plan changes in our currency are not free to outline *de novo* an ideal sys-

tem, but must always keep before them the fact that the Government bond issues, sustained as they are now by artificial conditions, cannot prudently be left to seek a normal level. Such a course would be unwise in itself and would with certainty antagonize almost every person interested in a National bank.

A CENTRAL BANK OF ISSUE.

In our opinion, the best method of providing an elastic credit currency, the volume of which could never be excessive, would be the creation of a central bank of issue under the control of the Government. This central bank should have branches in the leading cities, and should have dealings only with banks. Although its capital stock might be privately owned or distributed among the banking institutions of the country, it should be under the direct control of a board of governors appointed, at least in part, by the President of the United States, for it should perform some of the functions now imposed upon the United States Treasury, and should at the same time be managed not exclusively for private gain but for the public good as well. This bank should have a large capital, not less than $50,000,000. It should carry a large reserve of gold and should act as custodian of the metallic reserves of the Government and as its agent in redeeming all forms of credit money. It should also be receiving and disbursing agent for the government, doing at its branches the work now done at the sub-treasuries. It should hold the five per cent. redemption fund now deposited in the Treasury by the National banks for the current redemption of their bond-secured notes, and should redeem National bank notes both at its central office and at all of its branches.

ADVANTAGES OF A CENTRAL BANK.

The operations of central banks in Europe, especially in France, Germany, Austria-Hungary and the Netherlands, make it impossible to doubt that the existence of such a bank in this country would be of incalculable benefit to our financial and business interests. Such a bank in times of stress or emergency would be able by regulation of its note issues to prevent those sudden and great fluctuations in rates of interest which have

in the past proved so disastrous. Furthermore, it would have the power to curb dangerous tendencies to speculation and undue expansion, for by the control of its rate of interest and of its issues of notes it would be able to exert great influence upon the money market and upon public opinion. Such power is not now possessed by any institution in the United States. Under our present system of independent banks, there is no centralization of financial responsibility, so that in times of dangerous over-expansion no united effort can be made to impose a check which will prevent reaction and depression. This is what a large central bank would be in a position to do most effectively. A central note issuing bank would supply an elastic currency varying automatically with the needs of the country. This currency could never be in excess, for notes not needed by the country would be presented for deposit or redemption.

RESUMÉ OF ADVANTAGES.

The advantages of such a central bank, in brief, would be as follows :

(1) It would supply the country with an elastic currency responsive to the varying needs of business.

(2) It would tend to steady the rate of interest at all seasons, and to give relief in periods of industrial and financial stress, for its large resources would enable it to meet extraordinary and sudden demands for both capital and currency.

(3) It would relieve the Federal Treasury of the duties now imposed upon the Division of Issue and Redemption, and, on account of its intimate relations with the money market, would be in a position, as the Treasury is not, to protect itself against a prolonged drain upon its reserves.

(4) It would do away with the cumbersome sub-treasury system and keep the money of the country always at the disposal of trade and commerce, so that the government's collections and disbursements would cause neither contraction nor inflation.

In this connection we beg you to give careful attention to the able letters from distinguished European financiers which are submitted with this report. These letters clearly set forth the beneficial operations of the great central banking institutions of Germany, France, Austria-Hungary and the Netherlands. The data they supply in the case of Germany and Austria-Hungary show the operation of a credit-currency issued under a special tax to have been strikingly beneficial in maintaining moderate rates of interest during the periods of moving the crops and making the quarterly settlements.

MODIFICATION OF THE EXISTING SYSTEM.

If for any reason, political or financial, the establishment of a central bank of issue is not advisable, your Committee would recommend the adoption of some plan whereby additional powers of note-issue shall be extended to National banks. As already has been said, the greatest defect of the present bank note system is the fact that its volume bears no relation to the demand for currency. No permanent increase of the stock of our credit money is called for. Indeed, any such increase would be attended with risk, for it might cause an expulsion of gold in such large quantities as to provoke lack of confidence in the maintenance of the gold standard. Your Committee would emphasize this point. Inflation is even more dangerous than contraction, for its perils, being usually masked by a fictitious prosperity, are often unnoted and ignored until great harm has been done. Certainly no measure should be taken to encourage it. What is needed is not a permanent increase of the currency, but the addition of a variable element issued and redeemed under such conditions that its supply shall exactly correspond with changes in the demand for currency.

If this variable element is to be issued by existing National banks, it is clear that the motive for its issue must be independent of those investment considerations regarding bonds which now render the National bank circulation unresponsive to the fluctuating demand for currency. The quantity of such notes which a bank may issue should not bear an unvarying ratio to the amount of its bond-secured circulation. It is proper, in our

opinion, to require a National bank to invest a certain proportion of its capital in government bonds as a prerequisite to the right to issue credit-currency, but the amount of such currency that may be issued should not be based in any fixed proportion upon the amount of bonds held. Merely to permit a bank to increase the proportionate amount of its circulation based upon bonds would not achieve the desired result, for banks would so order their holding of bonds as to get into circulation all that the law permitted, and would then be unable to put out additional notes unless they obtained additional bonds.

NO SUBSTITUTION FOR BOND-SECURED NOTES.

It should not be possible for banks to substitute this new credit currency for their present bond-secured circulation to such an extent as to lead to extensive sales of government bonds by the banks and to the depression of their market value. Legislation leading to such a result would be tantamount to a violation of vested interests, and almost certain to enlist the hostility of banks. Any such result may be avoided by the provision that no bank shall have the right to issue credit currency unless its bond-secured circulation amounts to a definite proportion of its capital, say 50 per cent. The bond-secured circulation of the National banks at the present time equals about 60 per cent. of their total capital. Some banks have issued circulation much in excess of 50 per cent. of their capital, while others have issued only the minimum required by law, which is in no case more than 25 per cent. of capital. If the right to issue credit-currency were extended only to banks whose bond-secured circulation equals 50 per cent. of their capital, while some banks might be under an inducement to sell part of their bonds, others would be under a similar inducement to increase their holdings and no serious disturbance of the bond market would be likely to ensue.

PROPOSED LIMIT OF ISSUE.

Banks should be permitted by law, as at present, to issue bond-secured circulation to the full amount of their capital, and no bank should be under any compulsion to issue the new credit

currency to be provided for, or to assume any responsibilities not imposed by existing law.

The amount of credit currency which a bank may issue should bear a fixed proportion to its capital stock. Estimating the amount of new currency needed by the country during the crop-moving season at $150,000,000, which is about 20 per cent. of the present capitalization of National banks, it would seem that an adequate supply of new currency would be provided in the fall if banks were permitted to issue, in addition to their bond-secured circulation, notes equal to 25 per cent. of their capital stock. But as some banks might not avail themselves of the privilege, and as others would doubtless succeed in substituting these new notes for a portion of their present bond-secured notes, it is probable that the limit of issue might well be fixed at 35 per cent. of a bank's capital

In order that there shall be no over-issue or inflation the following preventive measures are to be recommended :

ADEQUATE FACILITIES FOR REDEMPTION.

(1) That there should be convenient and adequate facilities for the redemption of bank notes is of the first importance. These could be assured by the provision that notes of every National bank should be redeemable at sub-treasuries and other convenient points. The redemption of bank notes should be so easy and inexpensive that none would remain in circulation after the need for them is past. At the present time the only general redemption agency for National bank notes is in Washington. On account of the location of that city, banks west of the Alleghany Mountains send in very few notes of other banks for redemption, but prefer to treat them as counter money, even though they have an excessive supply on hand, rather than incur the expense and loss of interest incident to their shipment to Washington for redemption. The records of the Redemption Bureau at Washington show that nearly 60 per cent. of the notes presented for redemption come from New York City alone. Of the remaining 40 per cent. about one half come from Philadelphia, Baltimore and other eastern cities. If the volume of bank notes is to vary sensitively and automatically with the need for them, there must

be incessant daily redemption, and this can be had only when the redemption points are so numerous that no bank will be more than 24 hours distant from one. When a properly distributed redemption system is in operation, few banks will voluntarily pay out the notes of other banks; for it will be to the advantage of each bank to pay out its own notes and send in the notes of other banks for redemption in lawful money, thus increasing its reserve and multiplying its power to make loans. So important is the prompt redemption of notes that if it were practicable we would favor a law prohibiting National banks from paying out the notes of other banks whenever received from individual depositors.

A GRADUATED TAX UPON NOTE ISSUES.

(2) The second measure for the prevention of excessive issues would impose a restraint of a more direct and obvious character. It consists of a graduated tax imposed upon the issue of notes, the tax rising as the ratio of issues increases. For example, assuming that banks having a bond-secured circulation equal to 50 per cent. of their capital are given the privilege of issuing additional notes equal to 35 per cent. of their capital, let the issues up to 5 per cent. of capital be taxed at the rate of 2 per cent. per annum; additional issues up to 10 per cent. of capital, 3 per cent.; additional issues up to 15 per cent. of capital, 4 per cent.; additional issues up to 25 per cent. of capital, 5 per cent.; additional issues up to 35 per cent. of capital, 6 per cent. For illustration: If a bank has a capital of $100,000 and has a bond-secured circulation equal to or exceeding $50,000, then let it have the right to issue $35,000 additional notes taxed as follows:

$ 5,000	taxed	2	per	cent.
5,000	"	3	"	"
5,000	"	4	"	"
10,000	"	5	"	"
10,000	"	6	"	"

The capital of National banks June 18, 1906, was $826,000,000. Therefore, the maximum issues of bank notes in excess of the bond-secured circulation would be, under present conditions, about as follows:

$ 41,300,000	taxed	2	per cent.
41,300,000	"	3	" "
41,300,000	"	4	" "
82,600,000	"	5	" "
82,600,000	"	6	" "
$289,100,000			

These figures on their face seem unduly large, but that they are not is made clear by the following three considerations:

1. The notes taxed at 5 and 6 per cent. could not be issued by many banks at a profit except in time of great stringency. In Canada, where banks are authorized to issue notes equal in amount to their capital stock without payment of tax beyond that necessary to cover the expense of issue and redemption, the average profit from note-issues is computed to be only 2½ per cent. Yet the rate of interest in Canada ranges between 5 and 6 per cent. On account of the expense that would necessarily be incurred in the issue and redemption of notes, if redemption were incessant on account of abundant redemption facilities, as provided in the plan recommended by this Committee, it is evident that no bank, if this plan were adopted, could profitably put forth a taxed issue of notes except when the market rate of interest was above the rate of tax. Inasmuch as the rate of interest in this country, except in a few communities of small bank capitalization, is seldom above 6 per cent., it is evident that the issues taxed at 5 and 6 per cent. would be put forth only in emergencies. The maximum increase of bank circulation under a tax of 4 per cent. and less would be only $123,900,000.

2. Since some banks would doubtless not qualify for the issue of the taxed circulation, the actual issue of the taxed notes, even when interest rates were high, would be materially less than the maximum allowed by law.

3. The abundant redemption facilities, which banks would freely utilize because of their competition to get into circulation their own notes rather than those of other banks, would make it impossible for any bank to keep outstanding more of its notes than the country had need for. The volume of these taxed

notes, on account of this competition among banks, would vary in accordance with the needs of business and could never exceed them.

It is evident that the privilege of issuing this taxed circulation, even though held in reserve and seldom availed of, would tend to steady the money market. The knowledge that banks had these notes in reserve, subject to their instant call, would be a source of confidence in business and banking circles, and would prevent that unreasoning anxiety which is often itself the cause of stringency. In order that these taxed issues may be immediately available when needed, each redemption agency should have in its custody, ready for delivery on demand, all the notes which each bank in its district is authorized to issue. These notes should, of course, not be subject to tax while lying at the redemption agencies.

A GUARANTY FUND FOR PROTECTION OF THE NOTES.

The proceeds of this graduated tax should be in the custody of the government and should constitute a guaranty fund for use, if needed, in the redemption of the notes of failed banks. Since the taxes would undoubtedly yield a sum more than adequate for this purpose, the Secretary of the Treasury should be given authority to cover the excess into the general fund of the Treasury and to invest a certain proportion of the fund in government bonds.

Banking experience in this and other countries demonstrates that this guaranty fund would prove many times more than adequate. Receipts from the existing tax on circulation (which was one per cent. up to the Act of March 14, 1900, and since then has been in certain cases one-half of one per cent.) were up to June 30, 1905, $96,220,927. The outstanding notes at time of failure of banks whose affairs have been closed were $17,295,748. But upon general claims the banks were able to pay from their assets 70.49 per cent. of liabilities. If the same rate of loss—about 30 per cent.—had been applied to the bank notes, in the absence of bonded security, the amount would have been $5,190,000. From these figures it appears that if the proceeds of the tax had been kept in a fund to protect the notes,

losses would have been covered about eighteen times over, and under the higher taxes proposed by this Committee the excess of the fund above requirements would be much greater.

Your Committee do not believe it necessary that bank notes should possess a first lien upon the assets of the issuing banks. The government, which is bound to accept National bank notes at par, is in a position to protect itself against possible loss, for it has ample powers of inspection and supervision.

THE BANKING CIRCULATION HOMOGENEOUS.

It should be noted that under this plan no additional form of currency would be created, for there would be no reason why banks should issue two kinds of National bank notes. The notes would be alike in form, and would be received in payment of debts to National banks and to the Government, as are National bank notes under the present law.

METHOD OF REDEMPTION.

It would be the duty of the Treasury, as at present, to redeem all the notes of a failed bank in full on presentation from its 5 per cent. redemption fund and, after the exhaustion of that fund, from the general guaranty fund derived from the tax on circulation. For such advances the Treasury would have a first lien, as at present, upon the proceeds of the bonds held to secure circulation, including the premium on such bonds, and would also have a claim upon the assets of the bank, ratably with other creditors, for the entire amount of bank notes outstanding which were not provided for by the bonds or other assets of the bank in the custody of the Treasury. In this way the charge falling upon the guaranty fund would bear a much smaller ratio to the amount of notes outstanding at the time of failure than unsecured claims would bear to the aggregate assets; and the guaranty fund would profit by notes which had been lost or were not presented for redemption.

CREDIT CURRENCY WOULD MOVE THE CROPS.

If all the National banks in the country, under such a plan as is here outlined, were given the privilege of issuing credit

currency, the harvesting of the great crops of this country would be accomplished by means of bank notes and not with lawful money, as at the present time. The lawful money reserves of banks in financial centers would no longer be depleted in the autumn in order that harvest hands in Kansas, Nebraska and Dakota might receive their wages. Practically all payments of sums of $5 and upwards in the agricultural regions would be made with bank notes, a large proportion of which would doubtless be supplied by the country banks themselves. In December and January, these notes, having done their work, would be deposited in country banks and would thence be sent either to reserve cities or direct to the nearest redemption agencies.

REPEAL OF $3,000,000 RESTRICTION.

Your Committee concur with the recommendation made by the regular Committee on Finance and Currency last spring, that the restrictive provision in the following section of the National Bank Act should be repealed:

"Sec. 9. (As amended by Act of March 14, 1900.) That any National banking association now organized or hereafter organized, desiring to withdraw its circulating notes, upon a deposit of lawful money with the Treasurer of the United States, as provided in Section 4 of the Act of June 20, 1874, or as provided in this Act, is authorized to deposit lawful money and withdraw a proportionate amount of the bonds held as security for its circulating notes in the order of such deposits: *Provided*, That not more than three millions of dollars of lawful money shall be deposited during any calendar month for this purpose."

The only effect of this restrictive provision is to increase the rigidity of the bond-secured circulation. The repeal of this clause would be positively necessary if banks were to issue notes subject to a graduated tax. Otherwise the issue of highly taxed currency would be attended by too great risk, for the interest rate in any locality might decline soon after such issue, whereas considerable time might elapse before the notes of its banks would be returned for redemption.

CASH BALANCE OF THE FEDERAL TREASURY.

The laws regulating the operations of the Federal Treasury should be amended. These operations at the present time are a constant menace to business. Excessive revenues take money out of circulation, while deficient revenues are equivalent to inflation. Both these evils would be avoided, as we have already pointed out, if a central government bank were created. If this be not done, then the Secretary of the Treasury should have authority to deposit in National banks money received from customs duties as well as that from other sources, either on proper securities in addition to those now required by law, or upon the payment of interest. In our opinion, all surplus money of the Treasury above a reasonable working balance should be thus deposited in the banks.

SCOPE OF THE PROPOSED PLAN.

In seeking to give greater elasticity to the currency, it has been thought best to recommend a plan which would accomplish the desired result most simply. A similar result might be obtained by various other methods, several of which having much merit were presented to your Committee. Among plans thus presented were some which involved the principle of co-operation by clearing houses in determining whether additional bank-notes should be issued or not, and even the formation by clearing houses of responsible corporations for the issue of notes; others which involved giving discretion to the Comptroller of the Currency in regard to issues, and others which proposed to give a similar discretion to a commission to be appointed for the purpose.

While some of these plans had many merits, and perhaps even some advantages in theory over the plan recommended by your Committee, it was felt that no plan would stand the test of discussion in Congress or in the banking community which should not accord equal privileges to all members of the National banking system. The clearing houses are not incorporated under Federal law. They represent only certain cities, and generally include, in addition to National banks, those which are not members of the National banking system. While these objections might be surmountable, your Committee felt that any grant of discretion,

whether to an individual or a committee, especially if it appeared to the public to give control of the volume of circulation to a small group of bankers,—even if such power were exercised in a conscientious, intelligent and far sighted manner,— would lead to suspicions and charges of favoritism and injustice, such as stimulated the attacks upon the Second Bank of the United States and have been repeatedly made against the Secretary of the Treasury for his policy in regard to deposits of public moneys.

It has been suggested to the Committee that a practical method of putting into operation the principle of a bank note credit currency would be to have Congress recognize this principle by authorizing banks, through a voluntary association of their own, to make such issues within certain limitations and subject to a joint guaranty by the participating banks; the details of such guaranty and the provisions for safety to be devised by the banks themselves subject to the approval of the Comptroller of the Currency. Your Committee see practical difficulty in securing the representative judgment of the bankers to devise the details of such a plan, but we are so clearly convinced of the desirability of the application in some form of the principle of a credit currency that we would heartily endorse this plan if Congress and the banking interests approved it.

AN AUTOMATIC SYSTEM DESIRABLE.

In view of these considerations, your Committee came decidedly to the conclusion that any system recommended should be automatic in its operation, in the sense that it should afford equality of treatment, under uniform conditions, to all National banks, and should leave the net volume of bank-note circulation to be determined by the interplay of the interest of the banks among themselves, rather than to the decision of any single official or banker or group of officials or bankers.

EXISTING CONDITIONS MUST BE CONSIDERED.

It should not be overlooked that in proposing new legislation such a body as the Chamber of Commerce is bound to consider conditions as well as theory. Your Committee did not feel, therefore, that they were required or expected to build up a theoretical

structure which might if enacted be a sound substitute for the existing monetary system of the United States, but rather to address themselves to such evils as are capable of correction by simple legislation.

GROWTH OF SENTIMENT FOR LEGISLATION.

We have taken some pains to ascertain the sentiments of representative bankers throughout the country and are of the opinion that a majority of the bankers of the United States appreciate the necessity for a variable and elastic element in the currency and will heartily co-operate with the bankers of New York City in an effort to secure an amendment to the existing law. The subject is one in which the whole country is interested. New York City, because it is the financial center, its banks holding large sums of money belonging to country banks, appears to suffer most from the present rigidity of the currency, for every fall its money markets are suddenly stripped of reserve funds. As a result the rate of interest on demand loans in New York City always fluctuates greatly during this season and often reaches heights which not only amaze foreigners but cause them to doubt our financial stability. When we consider, however, the magnitude of business operations in New York as compared with those of other parts of the country, and take into account the fact that the commercial rate of interest in this city is advanced no more than elsewhere, while the excessive rates on call loans are paid on comparatively small borrowings, we are of opinion that the evils inflicted on New York by the defects of the present currency system are no greater than those endured by other sections.

NEW YORK CITY SHOULD TAKE INITIATIVE.

Nevertheless we find among bankers of this country a conviction that this is a problem in the solution of which the bankers of New York City should take the initiative. We also find the same opinion prevailing among representative business-men. They realize that the hardship caused by a faulty currency system is borne, not by the banks, but by the public in general; and resolutions have been adopted almost unanimously

by several prominent business organizations favoring such amendment of the National banking laws as will give relief.

There is reason also for believing that no important financial measure will receive favorable consideration in Congress unless it has the endorsement of representative bankers. Such being the case, we are of opinion that the bankers of New York City, ought to take up this question and reach an agreement upon some satisfactory measure. If they do this, having in mind the welfare and needs of the entire country, as their own best interests would dictate, we are hopeful that their recommendations will meet with approval among the bankers in every State of this Union and be enacted into law by Congress without unnecessary delay.

SUMMARY OF THIS REPORT.

In order that the members of the Chamber may have before them in brief space the recommendations of this Committee, together with the important considerations upon which they are based, we present herewith a brief summary of this report.

We find that our currency is seriously defective in that its volume does not vary with the demand, so that the business of the country is alternately exposed to the evils of a redundant and of a deficient supply.

When the need for currency increases, as it does every autumn when the crops are harvested, our banks are obliged to pay out lawful money from their reserves, and in consequence to raise their rates of interest on demand and time loans. These operations are a source of real loss to the commercial and industrial interests of the entire country. They work injury to our merchants, to our manufacturers, and to our farmers,—in short, to all classes of producers.

When, on the other hand, the supply of currency is excessive, as it usually is in the spring, the consequent congestion of banking reserves forces an abnormally low rate of interest and so tends to excite a dangerous speculative spirit in our markets and exchanges.

We believe that this oscillation between periods of contraction and inflation is the direct consequence of the artificial and unnecessary inflexibility of our currency due to restrictions which are

placed by law upon the issue of bank notes. Under the existing law National banks can increase their issue of notes only in proportion as they increase their holdings of the United States bonds which are deposited as security; and they cannot at will regain possession of the bonds by the deposit of lawful money for the retirement of their notes. On account of the investment considerations regarding bonds which are involved in the issue of National bank notes, we find that this class of currency, which in most other leading countries possesses a useful flexibility, is here issued and retired utterly without regard to the country's varying needs for currency.

Notwithstanding the inadequacy of the bond-secured circulation of our National banks, our deliberations have brought us to the conclusion that it would be unwise to disturb this circulation or to recommend any substitute for it as it now exists, for such a course would lead to an inequitable depreciation of the United States bonds now outstanding. In our opinion, however, future issues of Government bonds should not be made available as a basis for bank-notes, for the great increase in the bond-secured circulation that has taken place within the last six years furnishes evidence that the existing system of note issue without adequate redemption might become dangerous.

We have had brought before us for consideration two classes of remedies for existing evils:—(1) radical measures involving the creation of corporations with powers and privileges unlike those now possessed by any American institution; (2) measures which would enlarge the privileges of corporations already in existence. We have deemed it best to select from each of these classes the one which we believe to be the best. If the country is ready for a radical addition to our financial system, we believe that the world's experience proves beyond question that a central bank of issue controlled by the Government ought to be established. If, however, the people of the United States shrink from the creation of such an institution, we believe that the wisest alternative is a simple measure enlarging the present note-issue privilege of National banks in such manner that their right of issue shall not vary with their ownership of United States bonds, and under such conditions that the retirement of their notes when not needed shall be certain and automatic.

We, therefore, make the following recommendations:

1. That legislation be enacted which shall provide the country with a flexible and elastic bank note currency; and to this end we suggest that either one of the two following plans might wisely be adopted:

(*a*) Let there be created a central bank of issue similar to the Bank of Germany or the Bank of France; such bank to deal exclusively with banks; its stock to be owned in part by banking institutions and in part by the Government; but in its management representatives of the Government shall be supreme. This central bank shall issue currency, rediscount for other banks, hold public money, and act as agent of the Government in redeeming its paper money and making its disbursements.

Or (*b*) Let any National bank whose bond-secured circulation equals 50 per cent. of its capital have authority to issue additional notes equal in amount to 35 per cent. of its capital.

Let such additional notes be subject to a graduated tax as follows: The first 5 per cent., taxed at the rate of 2 per cent. per annum; the second 5 per cent., taxed at the rate of 3 per cent.; the third 5 per cent., taxed at the rate of 4 per cent.; then an issue equal to 10 per cent. of capital, taxed 5 per cent.; then an issue equal to 10 per cent. of capital, taxed 6 per cent.

Let the proceeds of this graduated tax constitute a guaranty fund, in the custody of the Government, for the redemption of the notes of failed banks.

To insure the prompt retirement of notes when not needed, let redemption agencies be established at sub-treasuries and other convenient points.

Let all the notes of a bank be alike in form, and let it be the duty of the United States Treasury to redeem all the notes of a failed bank, as at present, in full on presentation, and to recoup itself from the assets of the failed bank and from the guaranty fund.

2. That the law restricting the retirement of National bank notes to $3,000,000 per month by the deposit of lawful money be repealed.

3. That future issues of United States bonds be not made available as a basis for the issue of National bank notes.

4. That the laws regulating the operations of the United States Treasury be amended in such a manner that they shall not, as now, interfere with the money market; and to this end we suggest a law requiring that all money in the General Fund of the Treasury above a reasonable working balance be deposited in National banks.

OCTOBER 1, 1906.

JOHN CLAFLIN, Chairman.
FRANK A. VANDERLIP,
ISIDOR STRAUS,
DUMONT CLARKE,
CHARLES A. CONANT.

JOSEPH FRENCH JOHNSON, Secretary.

APPENDIX

LETTERS RECEIVED FROM EUROPEAN BANKERS.

From the Governor of the Bank of France.

Paris, July 21, 1906.

Mr. John Claflin, Chairman Special Currency Committee,
Chamber of Commerce of the State of New York.

Mr. President:

You have done me the honor to write to ask from me information relative to the issue of bank notes in France. I hasten to meet your request in passing successively under review the different questions which you have thought proper to address to me.

The first question is in these terms:—"Is the amount of the credit circulation of the Bank of France determined by a fixed law or by the needs of commerce?"

These two elements each play a certain part. Until 1848, no absolute limit was imposed by law on the issues of the Bank of France. The decree of March 15, 1848, establishing forced legal tender of bank notes, at the same time fixed the maximum of their issue at 350,000,000 francs. This provision was abrogated at the same time with forced legal tender by the law of August 6, 1850.

The law of August 12, 1870, again established forced legal tender and imposed a limit of issue fixed at 1,800,000,000. By a series of successive augmentations, this limit was carried from 1,800,000,000 to 5,800,000,000 (Law of February 11, 1906).

But from the fact that these increases were approved by legislative authority every time that the outstanding circulation of notes approached the legal limit, it resulted that in reality the issue has up to the present time followed the demands of commerce.

These demands, moreover, cannot be unlimited. In order that they may be considered, it is necessary that the credits which they tend to create shall fall within the classes contemplated by the statutes of the Bank,—discount of bills maturing within three months, secured by three signatures, or two signatures supported by the guaranty of a deposit of securities; advances on securities which are acceptable; advances on bullion and money. The circulation not covered by the cash reserve is then limited in reality by this fact,—that notes cannot be issued to satisfy demands which do not fulfill one or the other of the conditions above enumerated. There is, therefore, a very substantial guaranty, by reason of which when there has been occasion to fix the legal limit, it has been possible to leave the circulation to adjust itself without restriction to the needs of commerce.

To your second question also,—"Has commerce suffered by the limitation of issues?"—We are able to reply that the limit of issues has always been maintained at a level sufficiently high that commerce has never been exposed by the act of the bank to deficiency of means of payment.

Without doubt it has happened sometimes that during the period immediately preceding the elevation of the legal maximum, the credit circulation has approached so near the limit that the bank was obliged to restrict its issues and to give the public metallic money in place of notes, but this in a proportion too small and during too brief a period for it to result really in disturbance of commercial customs.

The amount of the circulation is generally lowest from July to September, and attains its maximum in the first and last months of the year. This variation arises from the diminished activity of commercial operations during the summer season. If we establish a monthly mean of the circulation from January 1, 1901, to June 30, 1906, the following figures result:

January	4,438,000
February	4,386,000
March	4,346,000
April	4,374,000
May	4,335,000
June	4,255,000
July	4,214,000
August	4,150,000
September	4,147,000
October	4,271,000
November	4,301,000
December	4,292,000

I append elsewhere to the present letter a more detailed table giving for the same period and for each year the monthly average of the circulation of notes. This table will enable you to understand the small relative importance of the periodical variations on the subject of which you wish to be informed.

The limitation of the right of issue by the operation of restrictive clauses might provoke an abnormal rise in the rate of discount,—that is, a rise not justified by the commercial situation. If, in effect, the circulation was on the point of attaining its legal maximum, and new demands appeared, the Bank would no longer be able to meet them except by means of its metallic resources, and even this means might fail if the figure of the reserve entered as a co-efficient into the determination of the limit of issue. But outside of this consideration even, the necessity of maintaining its reserves would constrain it to raise the rate of discount with a view of diverting a part of the demand. The conditions of credit would thus be rendered more rigorous by the intervention of restrictive legislation.

But the Bank of France, as has been said in response to the first question, is, on the contrary, placed from this point of view under a very liberal regime, which permits the circulation to expand in proportion to the real needs of credit. Its rate of discount is not subjected to the artificial cause of elevation which would result from an automatic limitation of the issue. The power to consider favorably all the demands which are presented in the form of security easily realizable, assures to commerce the most moderate rates which are compatible with the constitution and maintenance of a strong cash reserve.

A second table annexed to the present letter will indicate to you the different rates of discount in force at the Bank of France during the last thirty years. Perhaps the comparison of these figures with the similar figures which are disclosed by the accounts of other banks founded on a different principle will be of a nature to furnish you useful suggestions.

You have, in conclusion, expressed the desire to know my opinion upon this final question, "Has the power to issue notes in conformity with the needs of commerce contributed to increase and protect the metallic reserve of the bank?"

I think that here it is necessary to make a distinction. If the limit of issue fixed by the law is independent of the amount of the metallic reserve, it seems that a restrictive clause might be an obstacle to the increase of this reserve. The bank in effect would not be able to receive bullion indefinitely, since from a certain moment it would be forbidden to issue notes against it. On the other hand, in order to satisfy the needs of commerce, it would be lead, once the limit of issue was attained, to conduct its discounts by means of metallic money and thus to impoverish its metallic reserves.

But the same consequences would not be produced, in my opinion, if the limit of issue bore a relation to reserve. The bank would always be able to receive bullion in exchange for notes and as soon as the issue touched its maximum, it would forbid either discounts in notes or discounts in metallic money which would modify the legal proportion of the reserve to the circulation.

I hope, Mr. President, that the information which I have the honor to transmit to you will be of a nature to afford you satisfaction, and I shall be happy to take occasion to complete it in conferring with Mr. Charles A. Conant on the questions which interests you.

Please accept, I beg of you, Mr. President, the expression of my most distinguished sentiments.

GEORGES PALLAIN.

From the President of the Imperial Bank of Germany.

Berlin, July 21, 1906.

Mr. John Claflin, Chairman Special Currency Committee,
Chamber of Commerce of the State of New York.

Dear Sir:

Inasmuch as we have now had the desired conference as requested in your letter of the 19th of this month with Mr. Charles A. Conant, I now beg to explain in detail the various points touched upon in said conference.

According to Paragraph 17 of the Banking Law of March 14th, 1875, the Reichsbank is obligated at all times to cover the amount of notes in circulation to the extent of at least one-third in current German money, that is, money issued by the Government, or with gold in bars or foreign coin on the basis of the price of Mk. 1392 per Pound 1000 fine, and the balance of the circulation to be covered by discounted bills, the life of which does not exceed three months, and which, as a rule, must have three, or at least two, signatures or obligators whose solvency is beyond doubt.

The amount necessary to cover the notes in circulation by cash averaged, during the last three years, 1903 to 1905, Mk. 932,065,000; Mk. 952,681,000 and Mk. 999,111,000, so that a note-issue on this basis could have been made to the extent of 2,796,195,000, 2,858,043,000 and 2,997,333,000 Marks.

As a matter of fact the issue during this period amounted only to 1,248,718,000, 1,288,549,000 and 1,335,701,000 Marks, from which you will see that the maximum was not even approached.

According to Paragraph 9 of the Banking Law, banks whose circulation exceeds a percentage of cash means according to the amount definitely fixed for each bank, which is called its contingent circulation, must pay a tax of 5% per annum to the Government as assessed on such excess circulation. I may men-

tion that the Bank notes of other German banks can be counted as cash means.

The contingent circulation of the Reichsbank was originally set at Mk. 250,000,000. This has been increased up to the close of the year 1900 through the amount abandoned by other banks, so that on January 1, 1901, the contingent circulation of the Reichsbank was fixed at Mk. 293,400,000, and since then has been increased to Mk. 450,000,000, and has since through additions increased so that it now stands as Mk. 472,829,000.

On the average basis the Reichsbank has never taken advantage of its full contingent circulation. During the year 1903 although the circulation has exceeded its cash means on an average of about Mk. 306,210,000, 316,486,000 and 316,466,000.

During stated periods of the years aforesaid an excess of circulation has occasionally occurred.

In consequence of the development of economic life the constant changing needs of commerce has caused as a consequence an excess of uncovered circulation from time to time, and this period is particularly found in the days of the quarter end, and the amounts have at times been very heavy. But on other occasions there has been no necessity at all for an excess circulation.

The course of other circulation during the years 1903 to 1906 can be seen from the enclosed diagram.

The margin between the maximum amount of uncovered circulation and the minimum caused by the requirements of trade evidences an elasticity for the year 1903 of Mk. 642,947,000 for 1904, Mk. 663,840,000 for 1905 and Mk. 959,256,000, and for the period from Jan. 1, 1906, to June 30, 1906, of Mk. 628,765,000.

The amount of the 5% tax paid to the Government was for the years 1903 to 1905, respectively, Mk. 805,267.44, 1,118,373.21 and 1,651.003.17.

The over-issue, however, did not necessarily cause a rise in the official discount rate, inasmuch as more weight was given to the cause and the manner of the money requirements than to the amount that was used, in deciding upon the policy of the bank,

and furthermore, in consideration of an early return to normal conditions the administration of the bank very often, notwithstanding that the over-issue was quite important, suffered the lower discount rate to stand and preferred to sacrifice its own profits in paying the tax out of its own pockets.

For instance, the bank, as you will see by the enclosed diagram, retained its official discount rate during the entire period from January, 1903, to October, 1904, at 4%, and at one time even at 3½%, although the contingent amount was exceeded thirteen times.

From experience in the past, as you will see by the foregoing, the system adopted in connection with the over-issue of notes, has been very successful. As there is no definite boundary line for the uncovered note-issue, it has been made possible for the Reichsbank administration to satisfy at all times the changing demands of commerce by arranging its circulation accordingly, and even in times of extraordinary stress it was enabled to place at the disposal of the general commercial community the necessary provision for a circulating medium without unduly increasing the official rate of discount, and in the same manner an unhealthy expansion of the uncovered note issue by means of the penalty incurred through the government tax has been avoided.

I would further refer you to a monograph entitled "The Reichsbank from 1876 to 1900," and particularly to the chapter commencing at page 43.

And further I would refer to another work published by me entitled the "Imperial Laws Covering Discount and Banks of Issue, Paper Money, Lottery Bonds and State Indebtedness," and particularly I would refer to the introduction on pages 1 to 43.

These two books I have handed to Mr. Conant personally. I at the same time handed him tables referring to remarks on pages 294 and 300, etc.

I am ready to impart any further information if it is desired, and in the meantime, am,

Yours respectfully,

A. KOCH.

From the Managing Director of the Deutsche Bank, Berlin.

Berlin, W., July 26, 1906.

Mr. John Claflin, Chairman Special Currency Committee,
Chamber of Commerce of the State of New York.

Dear sir:

Mr. Charles A. Conant brought me your esteemed favor of the 19th of June, and I have pleasure in replying to your inquiries.

Prior to Germany's unification there reigned great confusion in this country's currency arrangements. The several states that formed the Confederation had five different monetary systems and different coins, legal tender notes issued by many Governments and a large number of issuing banks, government and private. All this was changed after Germany had achieved her unity. Practical business men, such as the late Mr. Bamberger and Doctor George Siemens, were consulted and assisted Prince Bismarck's Government in preparing and carrying into effect new laws regulating Germany's monetary and banking system. The coinage was reformed by the law of 9th July, 1873, and another law of 14th March, 1875, regulated the issue of bank notes. These two laws, with slight modifications, have remained the basis of Germany's currency system.

You are aware, that Germany has a gold currency, and I may here mention that more gold coin is circulating in this country, comparatively, than in most of all others, because the use of checks is not yet as general with us as it is in your country or in Great Britain.

Silver coins are circulating only as token money. The old Thalers (a coin equivalent to 3 marks), which had until recently full value as legal tender, are being rapidly re-coined into pieces of the Reichsmark system. There is a slight excess in coins of 5 marks, which are not liked by the public, although they are smaller than would be a silver dollar equivalent in value to one dollar gold.

Secondly, and as a surrogate for coins, there is in circulation a small amount of Government notes, equivalent to your greenbacks. But the total amount of these notes, which are circulating in small denominations down to five marks, is limited to 120 millions marks (less than 30 millions of dollars), and the total equivalent of these notes is deposited in gold coin in the fortress of Spandau, near Berlin, and can be used in case of war only.

Thirdly and lastly the money circulation of Germany consists of bank notes. These are issued by the Reichsbank and four banks of the minor States of the German Confederation. The number and importance of such minor banks is decreasing constantly; they are following in their discount policy the lead of the Reichsbank, and for all practical purposes and particularly for investigations of the kind you have in view the Reichsbank alone need be examined.

You are aware that the Bank of England has lent the par value of its entire capital stock to the British Government, and that the Bank is allowed to issue notes not covered by gold up to the amount of such capital stock and up to that amount only. Now, although the Bank of England is admirably managed, this system, owing to its being inelastic, has not withstood severe strain. You are aware that the Bank of England's Act had to be suspended several times since its enactment, or, as the familiar expression says, the Bank has been broken.

You are aware also, no doubt, that the example of the Bank of England has been followed in Spain, in Argentina and in other countries with poor and even disastrous effects.

The system of issuing bank notes against Government security must be admitted to be faulty, although the sage use of that system in England and in the United States may seem to prove the contrary, but only show that the practice is worth more than theory.

The German system of bank note regulation, being the latest, could make profit of the experience of other countries and must be admitted to be the best. Indeed it has been followed since its enactment wherever currency reform on a gold basis had to be introduced.

The advantage of our bank note system consists in its elasticity.

The Reichsbank is a joint stock company, but its managing directors are nominated by the Government.

The notes issued by the Reichsbank are not a legal tender.

The Bank is legally bound to redeem its notes in coin on demand.

All notes, which any one of the five banks may issue, must be covered by coin and gold in bars, or by bills of exchange having not more than three months to run, but the restrictions whereunder the Reichsbank may discount bills are very severe, and under no circumstances must the coin and gold held be less than one third of the total circulation.

Further, it is a law, that the Reichsbank, as well as the other four banks, pay a tax to the Imperial Exchequer as soon as their circulation exceeds the amount of the coin and gold held, plus an arbitrary amount fixed by experience at somewhat over $2 per capita of Germany's population. The exact figure of this arbitrary amount or "Kontingent," as it is called, is for the Reichsbank 472,829,000 marks, for the Bank of Bavaria 32 millions, of Saxony 16,771,000, of Wurtemberg 10 millions, and of Baden 10 millions, making a total of 541,600,000 marks, or say 130 millions dollars.

As soon as the Reichsbank or any one of the other four banks has issued notes to a larger amount than its legal share in the above mentioned 541.6 millions marks, then a tax of five per cent. is levied by the Empire on any excess issue. This tax is payable by forty-eighths. Thus, if the balance-sheet which the several banks are bound to publish weekly, shows an excess in any one week, the tax is 5/48% on the amount of such excess.

This stipulation which, when introduced, was quite new and an experiment, has proved a decided practical success.

The table herewith enclosed will show you that the Reichsbank, within the 30 years of its existence, has 121 times been obliged to issue more notes uncovered by metal than its "Kontingent." You will also see that the "Kontingent" has increased from 272 millions in 1876 to 473 millions now, partly by the dis appearance of smaller banks whose "Kontingent" has accrued to

the Reichsbank, partly by increase which it was found useful to make by law owing to the greater volume of business. You will also note from this table, that the excess issue very generally occurs on the last day of September and on the last day of the year, because of the special requirements of business connected with the harvest and with the end of the year, when nearly all joint stock companies close their balance sheets, when interest payment on mortgages are generally due, etc. When the circulation of the banks exceeds the arbitrary "Kontingent," and according to the importance of the excess issue of bank notes, the money market contracts automatically. It is very rare that the Reichsbank has been obliged to pay the tax for any length of time. A week or a little more is usually sufficient to re-establish the ordinary circulation. It must not be presumed that whenever the Bank has to pay the tax it would raise its rate of discount to the full extent of the tax incurred. Indeed the Reichsbank's rate of discount within 30 years has been raised to 7 per cent. only once—from December 19, 1899, to January 11th next following—and it has never gone above that figure. Anyhow the system so far has proved a perfect success. The Reichsbank of course holds very much more coin and gold than the one-third of its circulation prescribed by law; in fact on the average the Bank holds double that amount or more; thus, whenever a large demand for currency arises, the Bank can easily supply all the notes that are needed; but whilst the bank law allows an elastic expansion of note issue, it has proved to bring about also the necessary contraction, and has been a sufficient check hitherto on excess of speculation. You will note from the table, that during the last few years the total excess of bank note issue has been increasing to an extent that may be taken to mean a warning to speculation. It may be assumed, however, that under the prudent and moderate discount policy followed by the Reichsbank our currency will be kept in good order in future as for the last thirty years.

In order to furnish you the occasion, if desirable, to study in detail our currency laws and their working, I am sending you a collection of the German laws on Banking and Currency, also a volume "The Reichsbank" published upon the 25th anniversary of that institution's existence; further the Reichsbank's last

annual report; finally a booklet by an employee of the Reichsbank, giving in abbreviated form a history of the German currency since the enactment of the present laws.

Should you desire any further information the Deutsche Bank will be pleased to furnish it, thus contributing as far as this may be done from our side, to bring about what has long been felt in all the financial markets of the world, to be a much needed reform of your currency system.

I remain, dear sir,

Yours very respectfully,

ARTHUR GWINNER.

From the Managing Director of the Disconto-Gesellschaft, Berlin.

Berlin W. 64, August 2, 1906.

Unter den Linden 35.

MR. CHAS. A. CONANT,
c/o Messrs. John Munroe & Co.,
No. 7 Rue Scribe, Paris.

Mr. John Claflin, Chairman of the Special Currency Committee, requested me in his letter of June 9th, which reached me during the latter part of last month, to give him an expression of my views in regard to our bank note system and its workings. Although I cannot on account of the mass of material give an exhaustive discussion of the subject, I will, nevertheless, endeavor in outline at least to comply with Mr. Claflin's request.

Mr. Claflin's letter calls for answers to the following questions:

1st. Does the circulation of notes in Germany vary from one season to another?

2nd. Does the issue of uncovered notes have any effect upon interest rates, and has such issue ever prevented a crisis?

3rd. What advantages does the German system of bank note issue offer?

It must first be stated that an issue of uncovered notes in Germany does not occur. According to the laws governing the Reichsbank one-third of the entire issue must be covered by cash; that is, by lawful German money, notes of the Imperial Government, gold in bars and foreign coin; the remaining portion of the note issue must be covered by bills which have been discounted. As a matter of fact, the note issue is covered by actual cash in much greater measure than is required by law. On many occasions a surplus has been held by the bank. The most unfavorable condition existed on September 30, 1905, but even then the available funds, consisting of coins and Government notes, constituted 45.3% of the actual amount of notes in circulation.

In ordinary parlance mention is often made of the uncovered portion of the circulation, but it is generally understood that that portion is meant which is covered by bills of exchange and not by cash. The issue of notes is not limited by law but is governed by the requirements of the money market. An indirect limitation, however, does exist in the system of the so-called emergency issue. As soon as the Reichsbank has exceeded in its note issue a certain amount (at the present moment 472,829,000 M.), this surplus issue is subject to a penalty on the basis of an interest rate of 5% per annum, which has to be paid to the Government. In this way the bank is compelled to exercise caution and to limit its note issue as much as possible during times of particular stress.

Question 1. Both the total note circulation and the uncovered portion of it are lowest during the first months of the year, in which the requirements of business are comparatively small. They are both at their highest during the last quarter of the year, which period is usually characterized by a strong demand for money. Both classes of circulation show quite sudden increase at the end of each month and especially at the end of the quarter year, when the settlements call for large payments. For instance, the movement of the total circulation during the year 1905 was between 1,163,854,000 M. on February 23rd, and 1,682,646,000 M. on September 30th. The difference between

these two points, as you will see, was 518,792,000 M. Almost regularly at the turn of the quarter the Reichsbank finds it necessary to issue notes that are subject to the tax. This period of over issue, however, is of short duration, for the return flow of money very soon so increases the cash reserve that the tax ceases.

Question 2. Regarding the reserve for the note issue I must refer to what has already been said. The facility granted the Reichsbank to issue notes against bills of exchange has placed the institution in such a position that it is always able to satisfy any demand for a circulating medium and to prevent an undue enhancement of interest rates such as sometimes occurs in America owing to the lack of currency. During the existence of the Reichsbank since 1875 the official discount rate has ranged between 3% and 7%. The official bank discount rates, taken in five year periods, have averaged as follows:

1876/80	4.172%
1881/85	4.225%
1886/90	3.641%
1890/95	3.461%
1896/1900 . . .	4.420%
1901/1905	3.859%

The tax above referred to has had the effect of preventing excessive expansion of note issues, for the tax is higher than the average rate of discount and consequently as a rule entails a loss to the bank, so compelling a limitation of the issue.

Question 3. In addition to the Reichsbank there are in Germany at the present time four private banks having the privilege of note issue. They are the Bayerische Notenbank in Munchen, the Sachsische Bank in Dresden, the Wurttembergische Notenbank zu Stuttgart and the Badische Bank zu Mannheim. The total of the untaxed issue permitted to these banks amounts to 68,771,000 M., while the limit for the Reichsbank has gradually been increased to 472,829,000 M.

A feature of considerable importance as far as the position of the Reichsbank is concerned, is the fact that the private banks have gradually ceased to exert any important influence upon the

domestic money market or upon international affairs affecting the German monetary system, so that the Reichsbank has taken the position de facto of a central bank of issue with power to regulate the monetary circulation of Germany. The advantages which have in consequence accrued to German commercial interests can be stated in brief as follows: The Reichsbank satisfies any increase in the demand for money out of its own resources by enlarging its issue of notes even to the extent of incurring the penalty prescribed by law in the event of an over issue; while on the other hand by the control of its rate of discount it prevents undue expansion of its circulation. Through the regulation of its discount rate it exerts a controlling influence upon domestic business affairs and upon the international movements of gold. The Reichsbank guards the German monetary system against outside interference, and encourages or hinders by means of its discount policy the inflow or outflow of gold. The bank maintains under all circumstances an adequate stock of gold, from which at all times foreign demands can be met without in any way affecting the integrity of the monetary system.

The German bank note system is distinguished beyond all things by the fact that it meets equally all requirements for elasticity and for security.

I hope that the foregoing will be of advantage to your discussions, and may also have some effect upon the conclusions which you may reach with regard to the improvment of your currency system in order that the increasing requirements of trade and finance in the United States may be met to better advantage than heretofore. I am,

Yours very respectfully,

ARTHUR SALOMONSOHN.

From the Governor of the Austro-Hungarian Bank.

VIENNA, July 22, 1906.

Gentlemen:

I beg to acknowledge the receipt of your favor of June 19th, and have now to inform you that on the 11th of this month I had the pleasure of meeting your delegate, Mr. Chas. A. Conant, and of discussing with him the various points mentioned in your letter, in which you express a wish to have my opinion particularly in regard to the operation of the German so-called indirect note issue. I will gladly comply with your request, and in this respect would refer you particularly to the exhaustive exposition in chapter 9 of the work handed your delegate issued by Mr. Leonhardt, General Secretary, called, "The Administration of the Austrian-Hungarian Bank from 1878 to 1885," and would add that the proposition made by the bank in 1887 regarding a change in its by-laws, covering a reform in its note issue in the interest of the general welfare, has stood the test of time.

As you will see by the following data, during a period of 18 years,—1888-1905—or 864 working weeks, the excessive circulation over and above that permitted by law, free of duty, occurred 55 times and the amounts vary from 45,654 kronen to 89,800,000 kronen and the amount of duties paid to the Government ranged from 47,560 kronen to 93,591 per week, or embraced a total payment to the Government of 1,294,880 kronen. I would further point out two notable periods; that is, of these 55 periods where the note issue was exceeded, 23 occurred in the month of October, which in this country is the harvest month and calls forth additional activity both in trade and commerce, and further that the system of note taxation exerted no decided influence upon the discount policy of the bank inasmuch as the Council of Administration, after careful consideration of all circumstances, had occasion to raise its discount rate repeatedly during times when the limitation of its note issue had not been reached; and also on several occasions when its limitations were reached, it maintained a discount rate lower than the legal 5%

rate. Thus the cost of the tax was not borne by its clients but by the bank itself.

I am always at your disposal, and remain,

Yours respectfully,

DR. LEON RITTER von BILINSKI.

From the former Governor of the Netherlands Bank.

BAD-NAUHEIM, July 25, 1906.

Mr. John Claflin, Chairman Special Currency Committee,
Chamber of Commerce of the State of New York.

My Dear Sir:

Mr. Conant sent me your letter of June 19, in which you ask me to give information regarding the banking system of my country (Holland). Owing to my absence from home I am unable to give you any statistics, but I can easily supply you with some details showing you in what manner we have been able to secure that elasticity which, in my opinion, is one of the principal requisites of a good currency.

In the years 1863 and 1864 questions of banking policy were much discussed in Holland. The Bank charter was about to expire and there was a strong party advocating "free banking." I never belonged to that party. My opinion then was, as it is now, that competition generally is an excellent thing, but that there are exceptions to every general maxim, and that at the present time it may be useful to possess at least one credit institution which by its position is not compelled to extend its operations to the utmost limit. This consideration for me was, at that time, the main reason why I strongly combatted the proposal to terminate the monopoly of the Netherlands Bank as bank of issue. I am happy to say that no such proposal has been adopted, and that when in 1889 and in 1904 the Bank

charter had again to be renewed, *nobody,* either in the press or in Parliament, advocated a change of system.

The fact is, that during all the commercial crises that occurred since 1864, the Bank had proved to be the main support of credit. Not only did never the slightest doubt arise as to the convertibility of the note, but there never arose, also, any doubt regarding the Bank's power to make any advances that might be demanded. That is the reason why nobody nowadays dreams of parting with a system which gives to the country a feeling of strength and security, and at the same time, by its branches and agencies, places the means of the Bank at the disposal of all, even in the remotest places.

The rules to which the Bank is submitted are very simple. It is not allowed to do any other business but discounting bills payable in Holland, making advances on securities and merchandise, and purchasing bills payable abroad. The amount of money, however, invested in this last branch may not exceed, except for a period of two weeks, the amount of its "surplus metallic stock." The surplus metallic stock is the amount of gold and silver which the Bank holds in excess of the amount it is required to hold. It is required to hold 40 per cent. of its cash liabilities (notes and deposits). Hence, supposing the cash liabilities to be 280 millions of florins (2½ florins = $1) and the stock of gold and silver to 150 millions, the surplus would be 38 millions.

Every week the main figures of the balance sheet are published, including that of the surplus, to which considerable attention is paid. It is expected—and this expectation has always been realized—that the Bank will always keep, in ordinary times, a large surplus, so as to be able to meet any extraordinary demand. We look upon this as one of the unwritten conditions—unwritten because it would be impossible to formulate them correctly—under which the charter has been granted. There are periods—and they last very long sometimes—during which the surplus rises to an enormous sum, but the Bank does not care. It knows quite well that better times for it will return, and that the community is all the safer for not having the demand for money stimulated immediately by very low rates of interest.

There is a circumstance, however, which strongly facilitates to the Bank the adherence to this line of conduct. The Bank's paid up capital is not large at all, only twenty millions of florins, about one-fourteenth part of its cash liabilities. It used to be fifteen millions, but in 1889 it was brought up to the present amount. At that time I was Governor of the Bank, and it was my duty to consider whether the increase from fifteen to twenty were sufficient. My conclusion was that not only was it sufficient, but that it was not even needed. The reason why a bank wants capital of its own is simply this, that it desires to have something—even a great deal—to fall back upon in case of losses. But fifteen millions is a great deal; the losses, even in the worst years, have never been so great as to exceed a small part of the bank's profits; they never affected its capital; and it seemed to me, when thinking out the subject, that there is really a certain danger in carrying up the bank's capital to a too high amount, because, it is much easier to earn a good dividend on a small capital than on a large one. I just said that in quiet times the bank suffers its surplus-metallic stock to increase (which involves that it suffers its discounts and advances to diminish) very largely. It would undoubtedly be less easy for the bank to do so if its capital were considerably greater than it is.

I hope that this information may be deemed sufficient. You will see that in my country there is no special mechanism, such as taxing the outstanding uncovered notes in excess of a certain amount for securing "elasticity." But the whole system is so arranged as to produce this effect. The bank, though a private institution, is governed on principles of a non-private character. The Governor and the Secretary, being appointed by the Queen, look upon their duties as mostly public ones. They hold that no bank of issue is properly managed unless its conditions be such as to allow of an increased issue of notes, whenever necessary, above the usual amount, and they conduct the bank operations in agreement with these principles.

I should be slow to believe that any mechanism would answer the purpose as well. Mechanisms have always some defect hampering their operation, or they produce consequences not contemplated and harmful.

Now, whether in all this there is anything of practical interest for those who wish to improve the banking system of the United States, I do not know. Of course, the same bank system would never do for a very large country, the needs, both temporary and permanent, of its various parts differing so much. Perhaps you might think of one bank for each State; or of forming between the banks of each State an arrangement in virtue of which their rates of interest for discounts and advances were fixed by a Central Board, to whose decisions each and all of them were bound to submit. All this requires a local knowledge which I do not possess. I could only give you a brief sketch of our own system and an account of the results it has produced.

With the assurance of my highest regard,

I am, dear Sir, yours respectfully,

N. G. PIERSON.

REICHSBANK

Reserve of Bank Notes under, and Excess of

(Amounts in

YEAR	Arbitrary allowance ('Kontingent') of Notes not covered by Metal, free of tax, at the end of every year.	Amount of Bank Notes which might have been issued, free of tax (Reserve of Notes)				
		Average	Highest		Lowest	
			Date	Amount	Date	Amount
1876	272.720	152.704	June 7th	242.981	Jan. 7th	30.519
1877	273.875	155.088	March 23rd	222.422	Sept. 30th	56.997
1878	273.875	185.222	June 7th	241.643	Jan. 7th	74.173
1879	273.875	195.358	March 23rd	299.225	Dec. 31st	71.648
1880	273.875	167.639	June 7th	231.531	Dec. 31st	48.975
1881	273.875	148.443	March 7th	260.499	—	—
1882	273.875	121.817	March 23rd	221.532	—	—
1883	273.875	176.123	March 15th	269.793	Dec. 31st	36.180
1884	273.875	168.786	March 15th	268.549	—	—
1885	273.875	168.640	June 7th	252.251	—	—
1886	274.834	196.583	Feb. 23rd	330.763	—	—
1887	276.085	220.649	June 15th	332.665	Jan. 7th	11.526
1888	276.085	277.110	June 7th	446.715	Dec. 31st	66.143
1889	286.585	194.200	March 15th	367.662	—	—
1890	288.025	135.431	June 7th	276.468	—	—
1891	292.117	246.010	Aug. 23rd	359.147	Jan. 7th	32.328
1892	292.117	283.444	Feb. 23rd	431.678	Dec. 31st	16.764
1893	292.117	183.302	Feb. 23rd	350.404	—	—
1894	293.400	262.761	Nov. 23rd	366.795	Jan. 7th	60.286
1895	293.400	243.237	Feb. 23rd	471.164	—	—
1896	293.400	135.209	Feb. 23rd	317.083	—	—
1897	293.400	113.026	Feb. 23rd	317.299	—	—
1898	293.400	54.691	Feb. 23rd	321.503	—	—
1899	293.400	12.271	Feb. 23rd	222.873	—	—
1900	293.400	8.689	Feb. 23rd	181.810	—	—
1901	460.000	214.600	June 15th	416.400	—	—
1902	470.000	254.400	Feb. 23rd	501.400	—	—
1903	470.000	163.800	Feb. 23rd	368.000	—	—
1904	470.000	153.500	Feb. 23rd	358.800	—	—
1905	472.829	153.700	Feb. 23rd	509.000	—	—

Circulation over the Arbitrary "Kontingent."

Thousand Marks)

Number of over-issues	Total Amount of over-issues	Highest amount of over-issues: Date	Highest amount of over-issues: Amount	Tax paid
	Excess of Issue over and above the Arbitrary "Kontingent."			
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
—	—	—	—	—
1	26.092	Dec. 31st	26.092	27
2	31.409	Sept. 30th	19.224	33
—	—	—	—	—
1	32.679	Dec. 31st	32.679	34
1	2.615	Jan. 7th	2.615	3
1	34.161	Dec. 31st	34.161	36
—	—	—	—	—
—	—	—	—	—
3	226.528	Dec. 31st	109.478	236
6	325.082	Oct. 7th	104.205	339
—	—	—	—	—
—	—	—	—	—
1	38.518	Sept. 30th	38.518	40
—	—	—	—	—
3	215.080	Dec. 31st	148.283	224
6	446.209	Dec. 31st	134.149	465
9	737.199	Sept. 30th	205.830	768
16	1850.325	Dec. 31st	282.955	1927
20	2733.402	Sept. 30th	371.233	2847
20	2417.139	Dec. 31st	355.917	2518
5	338.577	Sept. 30th	108.601	353
3	459.157	Dec. 31st	231.639	478
7	773.057	Dec. 31st	274.949	805
7	1073.638	Sept. 30th	305.038	1118
9	1584.963	Sept. 30th	450.283	1651
121				13.902 or $3.310.000

NOTE CIRCULATION AND STOCK OF METALLIC MONEY IN THE

(IN MARKS)

Date of over-issue	Amount of Authorized Issue	Stock of Metal	Cash. (Metal, Notes of other Banks and Treasury Notes.)	Circulation	Amount of over-issue.
1901 7, January	450,000,000	761,002,000	793,201,000	1,309,198,000	65,995,930
30, March	460,000,000	811,663,000	845,076,000	1,321,420,000	16,347,335
30, September	460,000,000	830,442,000	861,819,000	1,430,427,000	108,601,148
7, October	460,000,000	831,277,000	865,981,000	1,365,153,000	39,176,396
31, December	460,000,000	868,501,000	897,320,000	1,465,787,000	108,456,421
1902 30, September	470,000,000	839,804,000	874,354,000	1,495,370,000	151,015,199
7, October	470,000,000	836,834,000	869,559,000	1,416,059,000	76,503,876
31, December	470,000,000	786,123,000	814,830,000	1,516,469,000	231,638,836
1903 7, January	470,000,000	823,318,000	854,481,000	1,397,109,000	72 628,154
31, March	470,000,000	818,482,000	854,025,000	1,449,540,000	125,514,615
7, April	470,000,000	817,385,000	853,010,000	1,350,081,000	27,068,533
30, June	470,000,000	884,259,000	919,973,000	1,434,565,000	44,587,518
30, September	470,000,000	858,015,000	891,593,000	1,515,581,000	153,987,512
7, October	470,000,000	851,100,000	885,019,000	1,429,343,000	74,321,008
31, December	470,000,000	793,459,000	820,537,000	1,565,490,000	274,949,399
1904 7, January	470,000,000	834,443,000	868,434,000	1,438,295,000	99,861,153
31, March	470,000,000	828,079,000	860,804,000	1,496,935,000	166,126,902
7, April	470,000,000	852,917,000	899,609 000	1,385,839,000	16,222,874
30, June	470,000,000	870,048,000	902,449,000	1,477,852,000	105,400,518
30, September	470,000,000	793,143,000	824,023,000	1 599,067,000	305,038,527
7, October	470,000,000	789,444,000	833,181,000	1,482,350,000	179,169,568
15, "	470,000,000	839,669,000	897,616,000	1,395,915,000	28,298,848
31, December	470,000,000	927,060,000	956,261,000	1,599,784.000	173,519,879
1905 31, March	470,000,000	1,015,884,000	1,052,488,000	1,543,505,000	21,016,649
30, June	470,000,000	950,791,000	985,875.000	1,554,802,000	98,927,495
30, September	470,000,000	732,215,000	762,361,000	1,682,646,000	450,282,987
7, October	470,000,000	755,175,000	797,785,000	1,536,363,000	268,574,916
14, "	470,000,000	787,357,000	837,735,000	1,450,251,000	142,517,347
23, "	470,000,000	834,409,000	892,607,000	1,388,204,000	25,593,861
31, "	470,000,000	794,174,000	825,527,000	1,442,072,000	146,547,804
7, November	470,000,000	798,992,000	839,658,000	1,385,525,000	75,864,662
30, December	472,829,000	803,525,000	831,043,000	1,656,679.000	355,637,324
1906 6, January	472,829,000	854,032,000	892,580,000	1,515,306,000	149,897,000
31, March	472,829,000	888,980,000	922.921,000	1,629,098,000	233,348,000
7, April	472,829,000	915,791,000	958,428,000	1,477,287,000	46,030,000
30, June	472,829,000	844,429,000	892,971,000	1,647,872,000	282,072,000
7, July	472,829,000	879,012,000	939,041,000	1,501,112,000	89,242,000

REICHSBANK ON DAYS WHEN AN OVER-ISSUE OCCURRED.

Circulation and other maturing obligations	STOCK OF METAL		Amount of cover as required by Sec. 9 of the Banking Law of March 14th, 1875		Rate of Discount	Date of over-issue
	To secure circulation. Percentage.	To secure other maturing obligations Percentage	To secure circulation Percentage	To secure other maturing obligations Percentage.		
1,814,128,000	58.1	41.9	60.6	43.7	5	7, January, 1901
1,826,520,000	61.4	44.4	63.9	46.3	4½	30, March,
1,953,568,000	58.1	42.5	60.3	44.1	4	30, September,
1,865,886,000	60.9	44.6	63.4	46.4	4	7, October,
2,028,975,000	59.3	42.8	61.2	44.2	4	31, December
2,034,572,000	56.2	41.3	58.5	43.0	3	30, September, 1902
1,923,737,000	59.1	43.5	61.4	45.2	4	7, October,
2,060,433,000	51.8	38.2	53.7	39.5	4	31, December,
1,913,106,000	58.9	43.0	61.2	44.7	4	7, January, 1903
1,984,741,000	56.5	41.2	58.9	43.0	3½	31, March,
1,844,625,000	60 5	44.3	63.2	46.2	3½	7, April,
2,000,675,000	61.6	44.2	64.1	46.0	4	30, June,
2,066,179,000	56.6	41.5	58.8	43.2	4	30, September
1,905,894,000	59.5	44.7	61.9	46.4	4	7, October,
2,140,408,000	50.7	37.1	52.4	38.3	4	31, December,
1,949,423,000	58.0	42.8	60.4	44.6	4	7, January, 1904
2,036,574,000	55.3	40.7	57.5	42.3	4	31, March,
1,917,082,000	61.5	44.5	64.9	46.9	4	7, April,
2,017,605,000	58.9	43.1	61.1	44.7	4	30, June,
2,131,775,000	49.6	37.2	51.5	38.6	4	30, September,
1,978,479,000	53.3	39.9	56.2	42.1	4	7, October,
1,895,677,000	60.2	44.3	64.3	47.3	5	15, "
2,180,081,000	57.9	42.5	59.8	43.9	5	31, December
2,134,506,000	65.8	47.6	68.1	49.7	3	31, March, 1905
2,133,903,000	61.2	44.6	63.4	46.2	3	30, June,
2,239,021,000	43.5	32.7	45.3	34.0	4	30, September,
2,060,636,000	49.2	36.7	55.5	38.7	5	7, October,
1,967,907,000	54.3	40.0	57.8	42.6	5	14, "
1,918,945,000	60.1	43.5	64.3	46.5	5	23, "
1,929,565,000	55.1	41.2	57.2	42.8	5	31, "
1 859,920,000	57.7	42.9	60.6	45.1	5½	7, November,
2,287,486,000	48.5	35.1	50.2	36.3	6	30, December,
2,039,802,000	56.4	41.9	58.9	43.7	6	6, January, 1906
2,218,094,000	54.6	40.1	56.6	41.6	5	31, March,
2,021,801,000	62.0	45.3	64.9	47.4	5	7, April,
2,247,511,000	51.2	37.6	54.2	39.7	4½	30, June,
2,062,812,000	58.6	42.6	62.5	45.5	4½	7, July,

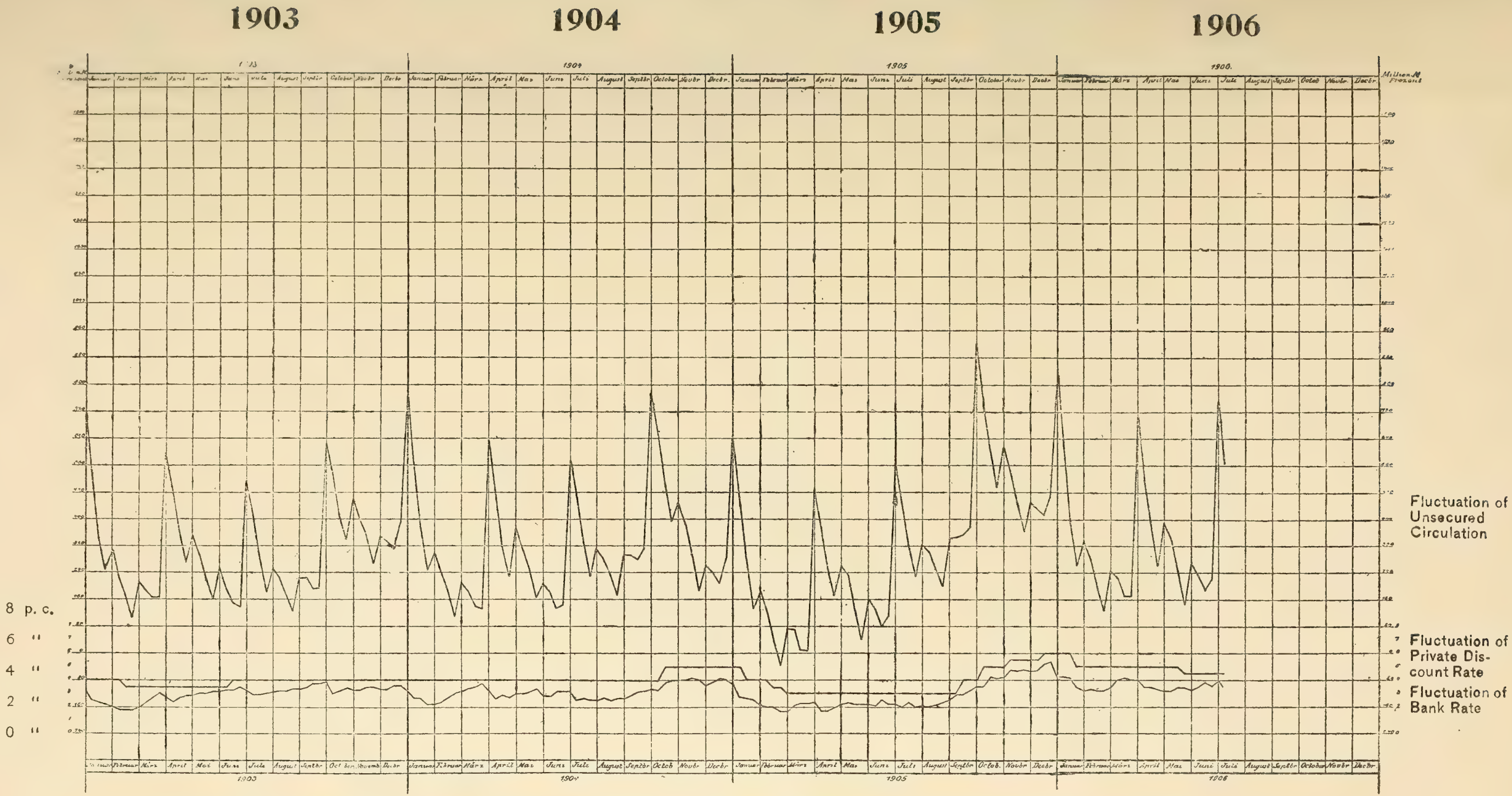
SPECIFICATION OF THE AMOUNTS OF UNCOVERED NOTE ISSUE AS WELL AS THE AMOUNTS OF OVERSECURED ISSUE ON BANK STATEMENT DAYS.

The highest and lowest amount of each year is shown by a line drawn under the respective amounts

Shown in Multiples of Mk. 1000.

The amount of unsecured notes is given in black faced type and the maximum amount is underscored.

DATE		1901	1902	1903	1904	1905	1906	DATE	
1		2	3	4	5	6	7	8	
January	7	515,997	426,055	542,628	569,861	438,915	622,726	7	January
"	15	356,015	260,469	356.983	377,262	285,185	392,322	15	"
"	23	227,659	132,862	242,946	246,913	133,071	260,365	23	"
"	31	264,316	161,344	306,038	297,135	182,263	335,488	31	"
February	7	230,146	95,116	231,217	247.539	126,262	278,587	7	February
"	15	154,579	23,149	175,297	186,248	35,001	187,671	15	"
"	23	100,189	**41,388**	102.006	111,204	**38,971**	126,136	23	"
"	28	129,274	31,050	209,213	209,620	76,971	244,562	28	"
March	7	111,889	19,734	182,276	186,095	71,146	225,362	7	March
"	15	89,272	113	164,670	140,167	12,913	171,918	15	"
"	23	108,303	15,070	165,744	134,696	8,228	169,408	23	"
"	31	476,344	359,062	595,515	636.131	491,017	706,177	31	"
April	7	418,426	313 390	497,071	486,230	372,932	518,859	7	April
"	15	253,469	163,967	368,048	321,092	254,798	396,381	15	"
"	23	150,744	80,449	270,442	230,346	181,499	260,474	23	"
"	30	225,693	170,471	347,538	369,162	260,395	386,414	30	"
May	7	190,640	140,610	297,627	308.743	236,221	340,731	7	May
"	15	117,749	81,492	219,361	249,039	136,721	243.804	15	"
"	23	60,760	**6,595**	161,925	164,139	41,845	148,270	23	"
"	31	98,991	68,702	251,474	207,974	159,375	266,802	31	"
June	7	68,389	29,737	189,743	183,480	129,170	236,932	7	June
"	15	43,574	**789**	148,066	137,961	80,462	190,700	15	"
"	23	51,266	**2,064**	140,663	148,653	113,454	221,216	23	"
"	30	443,492	382,175	514,592	575,403	568,927	754,901	30	"
July	7	380,402	319,758	415,491	468,581	448,190	562,071	7	July
"	15	274,067	190,927	278,635	327,590	321,595	436,757	15	"
"	23	182,004	107,501	179,207	231,259	233,471		23	"
"	31	235,741	173,741	252,660	312,597	323,354		31	"
August	7	204,450	145,850	224 471	282,125	302,332		7	August
"	15	168,203	110,628	169,888	233,171	251,171		15	"
"	23	121,379	73,875	123,838	175.283	199,021		23	"
"	31	229,126	173,648	226,075	292,335	340,888		31	"
September	7	215,359	185,732	223,906	289,159	344,528		7	September
"	15	191,655	181,743	193,964	278,891	353,895		15	"
"	23	193,606	196,844	198,000	309,617	377,689		23	"
"	30	568,608	621,016	623,988	775,044	920,285		30	"
October	7	499.172	546,500	544,324	649,169	738,578		7	October
"	15	386,911	415,539	415,055	498,299	612,516		15	"
"	23	285,823	333,952	339,751	396,999	495,597		23	"
"	31	356,061	433,846	460,951	447,107	616,545		31	"
November	7	311,031	389,976	400,626	385,643	545,867		7	November
"	15	258,493	335,138	354.660	293,404	451,935		15	"
"	23	196,367	272,570	264,830	183,740	362,867		23	"
"	30	264,628	335,193	344,346	260,520	452,603		30	"
December	7	230,472	325,117	336,456	239,899	428,523		7	December
"	15	203.206	304,150	309,957	209,800	415,873		15	"
"	23	255,150	370,174	390,961	282,504	469,603		23	"
"	31	568,467	701,639	744.953	643,523	825,636		31	"
Av. for the Year	....	243,075	211,443	306,210	316,486	316,466			
Average amount showing degree of elasticity . .	....	525,034	743,027	642,947	663,840	959,256			
Av. rate of dis't	....	4,099%	3,121%	3,837%	4,222%	3,817%			
No. of Bank statement days on which an over-issue is shown . .	....	—	4	—	—	1			



NOTE CIRCULATION AND DISCOUNT RATES OF THE REICHSBANK.

+ Currency question
+ Paper money
+ Clarkin John (1850-) (a.e.)